OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: Friday, September 8, 2006   **IBA Report Number:** 06-36

Budget Committee Agenda Date: September 13, 2006

Item Number: 2

Item: Proposed FY 2008 Capital Improvements Program (CIP) Schedule

OVERVIEW

In order to prepare for the Fiscal Year 2008 Budget Process and ensure incorporation of the Capital Improvements Program (CIP) into the budget process, the IBA has updated the attached draft schedule to specifically include the CIP as part of the budget review and hearing process for FY 2008. The attached schedule allows the public to be informed of when key budget events and decisions will occur; including the CIP, thereby providing citizens an opportunity to plan and participate in the process.

FISCAL/POLICY DISCUSSION

In the prior form of government, the Mayor and City Council received public input from Community Budget Forums and utilized this participation to set priorities for the City Manager's development of the City's budget. The final decisions on the proposed CIP projects, for inclusion in the budget, were made by the City Manager. With the transition to the strong Mayor form of government this past January and the resulting tight time constraints for the FY 2007 budget process, the opportunity for public input and Council deliberation on the CIP was quite limited.

Citizen involvement is an integral part of both the operating and capital budgeting processes. The attached schedule proposes a specific date be dedicated for a CIP Budget Hearing, to be held on May 11, 2007 at Budget Committee/Council. This will give the Council the opportunity to evaluate the CIP budget more comprehensively and will allow the public the opportunity to provide input.

In developing implementation plans for the new form of government, the Mayor-City Council Transition Committee recommended that the Budget and Finance Committee adopt by resolution its budgetary priorities for submission to the Mayor by February 1 of each year. For FY 2007, these memoranda focused largely on the operating budget. The revised schedule proposes that Council members incorporate their CIP priorities into their FY 2008 budget priority memos when submitted on January 12, 2007. These Council priorities will be discussed and referred to the full City Council and submitted to the Mayor by February 1. This process will allow Council to submit their CIP and operating budget priorities prior to the Mayor's development of the proposed budget.

To facilitate this, it is requested that prior to January, City staff meet with each Council member to review the capital needs and priorities that will be contemplated for their district in FY 08 budget process.

CIP Inventory/Prioritization

Numerous sources fund the City's CIP projects. However the most common include: TransNet, Facilities Benenfit Assessment (FBA), Developer Impact Fee (DIF), Cost Reimbursement District, Community Facilities District, Development Agreements, Sewer Funds, and Water Funds. In most cases, these funds have conditions and restrictions on how the funds can be expended. For example, TransNet must be expended for transportation related purposes; Facilities Benefit Assessments or Development Impact Fees must be spent within the community in which they were collected; and Water and Sewer Enterprise Funds must be utilized on projects relating to the Water and Metropolitan Wastewater Departments.

Each year, the demand for projects exceeds the available funding, causing projects to compete for funding. It is essential that the City prioritize all City capital improvement projects to ensure efficient and effective allocation of funding. The Mayor is currently in the process of identifying all of the City's infrastructure requirements and assessing the condition of the assets. The Mayor is also preparing a prioritization process for capital improvement projects that includes a criteria based ranking system. This proposed prioritization process is scheduled to be heard at the Land Use & Housing Committee in the late Fall.

After the assessment and prioritization of the City's capital improvement projects are complete, the City should adopt policies for acquiring, maintaining, replacing and retiring City assets. Often times, there is funding to acquire assets, but no funding available for maintenance. Such policies help to ensure that needed capital assets or improvements receive appropriate consideration in the budget process. This will assist the City in necessary planning for large expenditures and reducing deferred maintenance. Policies may address inventorying capital assets, evaluating their condition, funding for adequate maintenance, and scheduling replacement of capital assets. Plans should be developed to

establish ongoing, multi-year replacement and renewal schedules, and should recognize the linkage of capital expenditures with the annual operating budget.

Executive Oversight

Currently, a Senior Management Analyst in the Finance Department serves as CIP coordinator for the City. The Director of the Engineering & Capital Projects (E&CP) Department oversees capital improvement projects, with TransNet as the primary funding source. This position is not responsible for coordinating all capital improvement projects for the City. Due to the complexity of the CIP and the difficult decisions that will be necessary during the CIP assessment, prioritization and budget processes, it is suggested that the Mayor's Office consider assigning executive level management oversight of the City's CIP. An executive level position, such as a Deputy Chief, can serve a critical function in overall citywide CIP coordination and management.

CONCLUSION

The IBA believes that the revised schedule will ensure a more complete budget process in Fiscal Year 2008 by specifically incorporating the CIP. We request feedback and direction on the proposal in order to finalize the schedule for Fiscal Year 2008.

[SIGNED]   **[SIGNED]**

_____   _____
Angela Means   APPROVED: Andrea Tevlin
Fiscal & Policy Analyst   Independent Budget Analyst

Attachment